1999 Country Reports on Economic Policy and Trade Practices
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BRAZIL

Key Economic Indicators
(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP 2/	802	775	560
Real GDP Growth (pct) 3/	3.6	-0.1	0.0
GDP By Sector (pct)			
Agriculture	-0.2	0.0	N/A
Industry	3.7	5.5	0.05
Services	1.9	2.0	0.97
Per Capita GDP (US$) 4/	5,000	4,800	3,800
Labor Force (millions)	75.6	77.1	78.6
Unemployment Rate (pct)	5.7	7.6	8.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	21.4	24.4	23.0
Consumer Price Index 5/	4.3	2.5	8.0
Exchange Rate (R/US$ annual average)			
Commercial	1.08	1.15	1.85
Balance of Payments and Trade:			
Total Exports FOB 6/	53.0	51.1	48.0
Exports to U.S. 6/	9.4	9.8	10.8
Total Imports FOB 6/	61.4	57.7	49.0
Imports from U.S. 6/	14.3	13.7	11.8
Trade Balance 6/	-8.4	-6.6	-1.0
Balance with U.S. 6/	-4.9	-3.9	-1.0
Fiscal Deficit/GDP (pct)			
Nominal	6.1	8.0	11.0
Primary (inflation adjusted)	0.9	0.0	3.4
Current Account Deficit/GDP (pct)	4.16	4.33	4.2
External Public Debt 7/	80.0	90.6	99.3
Debt Service/GDP (pct)	1.3	1.5	2.4
Gold and Foreign Exchange Reserves (int'l liquidity)	52.2	44.6	37.6
Aid from U.S. (US$ millions) 8/	12.9	10.9	13.9
Aid from Other Countries	N/A	N/A	N/A

1/ estimates except where noted.
2/ GDP at market prices.
3/ Percentage changes calculated in local currency.
4/ At current prices.
5/ Source: INPC (National CPI).
6/ Merchandise trade; Source: Ministry of Industry, Commerce and Tourism (MICT). Trade totals are preliminary for entire year. U.S. totals are extrapolated from January-September data.
7/ Non-financial public sector (excludes Petrobras and CVRD); 1998 figure is July balance.
8/ USAID only.

1. General Policy Framework

Brazil's economic stabilization program known as the Real Plan brought down inflation, dramatically reduced the role of the state in the economy, initiated market opening, and encouraged greater private sector investment to achieve sustainable long-term growth. Since the July 1994 introduction of a new currency, the Real, national consumer price inflation has dropped from a monthly average of 50 percent in the first half of 1994 to 2.5 percent in all of 1998. With the rapid devaluation of the currency in 1999, inflationary pressures strengthened and consumer prices rose 6 percent in the 12 months to September 1999. Under the Real Plan, Brazil relied heavily on tight monetary policy to maintain an overvalued currency while attracting sufficient foreign capital to finance its growing external imbalance. The strong currency and market-opening measures increased competition for domestic firms and encouraged industrial modernization.

The Russian devaluation and default in August 1998 produced a crisis of confidence in emerging markets in general and Brazil in particular and set in motion events which culminated in Brazil's abrupt switch to a floating rate foreign exchange system in January 1999. The change was marked by initial reliance on extremely high real interest rates to stem capital outflow and help stabilize the currency. In the government's view, long term economic stabilization with improved real growth depends on fiscal stringency, use of monetary policy to fight inflation, and further progress on structural fiscal reforms. In particular, Brazil must continue to attain the fiscal and monetary targets set in consultation with the International Monetary Fund as the precondition for disbursement of a US$ 41.5 billion assistance package and to convince the markets that the country is on the right track. Brazil's privatization program has been the biggest in the world during the 90's and represented a major accomplishment for the first Cardoso administration. However, progress on other needed structural reforms remained slow and the country did not pass its first such reform measure, the constitutional amendment providing for changes in the civil service system, until February 1998. Brazil has made further progress on reform since then including approving part of a needed massive social security overhaul. However, much remains to be done.

Greater availability of credit, higher real incomes due to price stabilization, and a May 1995 hike in the minimum wage freed pent-up consumer demand and ignited a consumption boom in 1994/95 that ended in mid-1997. Lower trade barriers, pent-up import demand, and a strong currency prompted an initial surge in imports, which grew almost 150 percent from 1993 to 1997. Imports fell almost 7 percent in 1998 due to a growth slowdown and declined a further 17 percent in the first nine months of 1999 as the currency depreciated and domestic demand stagnated. In contrast, exports were up just over a third from 1994 to 1997 before falling almost 4 percent in 1998. Despite the approximately 40 percent depreciation of the Real against the dollar in 1999, a combination of factors inhibited export growth and overseas sales fell 11 percent in the first three quarters of the year.

Due to the impact of the global financial crisis and the tight monetary policy adopted in response to it, the economy shrank by 0.1 percent in 1998 and growth will be flat in 1999. Concerned about a widening current account deficit, which reached 4.2 percent of GDP in 1997 and 4.3 percent of GDP in 1998, the government began to adopt measures in 1997 aimed at discouraging imports and encouraging exports. These included imposing restrictions on short-term import finance and consumer credit, expanding the official export credit program, eliminating tariff exemptions for a long list of capital goods, adoption of a customs valuation table, increasing import documentation requirements, and tightening standards and enforcement. Even so, access to Brazilian markets in most sectors is generally good. Most sectors are characterized by competition and participation by foreign firms through imports, local production and joint ventures. The import finance restriction was effectively ended in March 1999 and completely rescinded in October.

In December 1995 Brazil implemented a complex automotive products import regime. The regime expires in 1999 and will be replaced by an as-yet-undefined MERCOSUR regime in the year 2000.

Brazil and its MERCOSUR partners, Argentina, Paraguay and Uruguay, implemented the MERCOSUR Common External Tariff (CET) on January 1, 1995. The CET currently covers approximately 85 percent of 9,000 tariff items; the CET will cover most of the remaining 15 percent by 2001, and all will be covered by 2006. CET levels range between zero and 23 percent. With the exception of tariffs on computers, some capital goods, and products included on Brazil's national list of exceptions to the CET (such as shoes, automobiles and consumer electronics), the maximum Brazilian tariff is now 23 percent; the most commonly applied tariff is 17 percent. MERCOSUR is now negotiating free trade agreements with its South American neighbors. Chile and Bolivia became associate members of Mercosur in October 1996, and negotiations with the Andean Community began in November 1996. On January 1, 1999, Argentina and Brazil took further steps towards a common market, by reducing tariffs on a list of 224 Argentine products and 32 Brazilian products to zero.

The Brazilian Congress ratified the GATT Uruguay Round Agreements in December 1994 and Brazil became a founding member of the WTO.

2. Exchange Rate Policy

Brazil effectively ended the former dual exchange rate market (commercial and tourist (or floating) with the switch to a floating rate foreign exchange regime in early 1999. There is also an informal parallel market but volumes are small. The Government has signaled its intention to move to a fully convertible currency, both for current and capital account transactions, as early as the first half of 2000.

When introduced in July 1994, the real was pegged at parity with the U.S. Dollar but quickly appreciated. The Central Bank established a new system of trading bands in March 1995 and subsequently devalued very gradually, first within the bands and then by adjusting the bands upward. The bank formerly pursued a so-called "crawling peg" policy of nominal depreciation of the real against the dollar at a rate of about 7.5 percent per year. With a steady decline in international reserves following the Russian Crisis, the country was forced to devalue in January 1999 and switched to a floating rate system with Central Bank intervention only to contain volatility.

3. Structural Policies

Although some administrative improvements have been made in recent years, the Brazilian legal and regulatory system is far from transparent. The government has historically exercised considerable control over private business through extensive and frequently changing regulations. As part of its efforts to keep inflation down, the government has in the past frozen public utility rates.

Brazil accelerated the privatization program initiated in 1990 to reduce the size of the government and improve public sector fiscal balances and revenues peaked in 1997-98. Steel companies and most petrochemical companies owned by the government, the main exception being Petrobras, have already been privatized. The majority of voting shares in mining conglomerate Companhia Vale do Rio Doce (CVRD) was sold to the private sector in May 1997 and Telebras was split into 12 firms and privatized in July 1998. Several electric utilities have been privatized and so-called "Band B" cellular telephone concessions covering the whole country were sold in 1997 and 1998. The Rio de Janeiro State bank, Banerj, was sold to the private sector and Sao Paulo state bank Banespa is scheduled to be sold in 2000. Until July 1999, Brazil realized $71 billion in direct sales revenues and a further $17 billion in retirement of public sector debt. The power and telecom sectors have each accounted for a third of total privatization proceeds to date.

Brazil's tax system is extremely complex, with a wide range of income, consumption, and payroll taxes levied at the federal, state and municipal levels. Because of difficulties in passing comprehensive tax reform through Congress, the government has focused on limited revisions by executive order. In late 1995, it passed revisions to the corporate and individual income tax regimes. In 1996, it exempted exports and capital purchases from the state-collected value added tax and announced a single tax on the gross receipts of small and medium enterprises. While the overall objective remains simplification, the government imposed an additional tax on financial transactions for a two-year period beginning in 1997 to finance the health system. The government has announced plans to transform the current system into one where a value-added tax, state and city sales taxes, and a selective excise tax would replace the current system of multiple taxation. The proposal is strongly advocated by Brazil's private sector and made progress in the Congress in 1999.

4. Debt Management Policies

Brazil's total external debt by the end of 1998 was $235 billion, of which 38.5 percent was due to the public sector (excluding Petrobras) and the remainder to the private sector. Total external debt rose 17 percent in the year. External public sector debt rose absolutely but fell as a share of the total. Debt service represented 2.0 percent of Brazil's Gross Domestic Product and 30.9 percent of merchandise exports. Brazil concluded a commercial debt rescheduling agreement (without an IMF standby program) in April 1994 after twelve years of negotiations and has fully complied with the commitments made in this agreement. Until the global financial crisis erupted in mid-1998, the terms of Brazilian debt obligations had lengthened and spreads narrowed on both public and private sector external debts. In November 1998, Brazil negotiated a $41.5 billion assistance program with the IMF and renegotiated the agreement in March 1999 following the decision to float the currency. Perceptions of Brazil risk and thus availability of foreign funding depends on progress on the fiscal stabilization program announced by the government in October 1998 as well as on compliance with fiscal and monetary performance targets set in conjunction with the IMF. In July 1999, Brazil adopted a so-called inflation targeting policy framework that relies on monetary policy to achieve target ranges of inflation. As of November 1999, Brazil was in compliance with all IMF targets and will meet its inflation objective for this year. In December 1999, Brazil and the IMF concluded an agreement on revised targets for the year 2000.

5. Significant Barriers to U.S. Exports

Import Licenses: The Secretariat of Foreign Trade implemented a computerized trade documentation system (SISCOMEX) in early 1997 to handle import licensing. Licenses for many products were to be issued automatically. However, an increasing number of products have been exempt from automatic licensing. In addition, Brazil has placed certain limitations and requirements on products subject to non-automatic licenses. Such measures have been characterized by Brazil as a "deepening" of the existing import licensing regime and as part of a larger strategy to prevent under-invoicing. However, the reported use of minimum price lists raises questions about whether Brazil's regime is consistent with its obligations under the WTO Agreement on Customs Valuation. On Friday, December 17, 1999, the U.S. requested WTO dispute settlement consultations with Brazil over the reference price issue. Earlier, the United States acted as an interested third party in WTO dispute settlement negotiations on this issue brought by the European Union.

Agricultural Barriers: While progress has been made in the area of fruit and vegetable regulations between the United States and Brazil, sanitary and phytosanitary (SPS) measures remain significant barriers in many cases as Brazil implements more and more regulations due to regional harmonization of such regulations. In November 1998, the U.S. and Brazil agreed on a protocol which allows the U.S. to comply with Brazilian phytosanitary requirements on Hard Red Winter (HRW) wheat, resolving a large portion of the largest bilateral phytosanitary issue with Brazil. However, the U.S. government continues to press for the entry of other kinds of U.S. wheat into Brazil.

Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. Brazil had previously granted conditional approval for U.S. poultry exports, which was withdrawn when the United States could not grant Brazil an exception to the standard U.S. approval process. Following the lead of the European Union, Brazil prohibits the importation of beef treated with anabolics; however, beef imports from the United States have been allowed on a waiver basis since 1991. In October 1995, Brazil prohibited the importation of live sheep from the United States due to scrapie (a sheep disease).

Services Barriers: Restrictive investment laws, lack of administrative transparency, legal and administrative restrictions on remittances, and arbitrary application of regulations and laws limit U.S. service exports to Brazil. In some areas, such as construction engineering, foreign companies are prevented from providing technical services in government procurement contracts unless Brazilian firms are unable to perform them. Restrictions exist on the use of foreign produced advertising materials.

Many service trade possibilities, in particular services in the oil and mining industries, have been restricted by limitations on foreign capital under the 1988 Constitution. Unless approved under specific conditions, foreign financial institutions are restricted from entering Brazil or expanding pre-1988 operations. The Brazilian Congress approved five constitutional amendments in 1995 that eliminated the constitutional distinction between national and foreign capital; opened the state telecommunications, petroleum and natural gas distribution monopolies to private (including foreign) participation; and permitted foreign participation in coastal and inland shipping. However, the degree to which these sectors are actually opened will depend on implementing legislation. Legislation permitting the licensing of private cellular phone networks to compete with existing parastatal monopolies was passed in May 1996, but it requires majority (51 percent) Brazilian ownership of eligible companies.

Foreign legal, accounting, tax preparation, management consulting, architectural, engineering, and construction industries are hindered by various barriers. These include forced local partnerships, limits on foreign directorships and non-transparent registration procedures.

The U.S. and Brazil signed in early October, 1999, a newly-revised bilateral Maritime Agreement, effectively ending a period of tension generated over misunderstandings relating to preferences afforded to selected classes of cargo. The new agreement must still be ratified by the Brazilian Congress.

Foreign participation in the insurance industry has responded positively to market-opening measures adopted in 1996. However, problems remain with market reserves for Brazilian firms in areas such as import insurance and the requirement that state enterprises purchase insurance only from Brazilian-owned firms. In June 1996, the government legally ended the state’s monopoly on reinsurance, but the monopoly has yet to end in practice and its persistence is keeping costs high for insurers, both domestic and foreign. The monopoly Brazil Reinsurance Institute is scheduled for privatization in 2000. U.S. and other foreign reinsurers have expressed concern with proposed regulations regarding the reinsurance market following the sale.

Investment Barriers: Various prohibitions restrict foreign investment in internal transportation, public utilities, media, shipping, and other "strategic industries." In other sectors, Brazil limits foreign equity participation, imposes local content requirements and links incentives to export performance. For example, there are equity limitations, local content requirements, and incentive-based export performance requirements in the computer and digital electronics sector. In the auto sector, local content and incentive-based export performance requirements were introduced in 1995, but should expire in December 1999. Brazil is currently engaged in negotiations with its MERCOSUR partners to develop a common MERCOSUR auto regime by that date.

Brazil’s Congress passed constitutional amendments permitting foreign majority participation in direct mining operations, but actual changes will not occur until the 1995 constitutional amendments are implemented through follow-up legislation. In August 1995, the government introduced a measure that permits foreign financial institutions to open new branches or to increase their ownership participation in Brazilian financial institutions. However, foreign ownership of land in rural areas and adjacent to national borders remains prohibited under law number 6634. A 1997 law allows for the state-owned oil company Petrobras, to take a minority stake in oil ventures, something previously prohibited. Despite investment restrictions, U.S. and other foreign firms have major investments in Brazil, with the U.S. investment stake more than doubling from 1994 to 1998.

Government Procurement: Brazil is not a signatory to the WTO Government Procurement Agreement. Federal, state and municipal governments, as well as related agencies and companies, follow a "buy national" policy and rules unfairly permit the government to provide foreign companies with production facilities in Brazil preferential treatment in government procurement decisions. However, Brazil permits foreign companies to compete in any procurement related to multilateral development bank loans and opens selected procurements to international tenders. Given the significant influence of the state-controlled sector, discriminatory procurement policies are a relatively substantial barrier to U.S. exports in Brazil's market, though the privatization of Telebras effectively removes the telecommunications sector from being subject to the procurement laws. To the extent that the privatization program in Brazil continues and non-discriminatory policies are adopted, U.S. firms will have greater opportunities in Brazil.

Law Number 8666 of 1993, covering most government procurement (except informatics and telecommunications), requires nondiscriminatory treatment for all bidders, regardless of nationality or origin of product or service. However, the law’s implementing regulations allow consideration of non-price factors, give preferences to telecommunications, computer, and digital electronics goods produced in Brazil, and condition eligibility for fiscal benefits on local content requirements. In March 1994, the government issued Decree 1070, which requires federal and parastatal entities to give preference to locally produced computer and telecommunications products and services based on a complicated and nontransparent price/technology matrix. Bidders that meet one or more of the criteria for preferential treatment are allowed a price differential of up to 12 percent over other bidders.

6. Export Subsidies Policies

In general, the government does not provide direct subsidies to exporters, but does offer a variety of tax and tariff incentives to encourage export production and encourage the use of Brazilian inputs in exported products. Incentives include tax and tariff exemptions for equipment and materials imported for the production of goods for export, excise and sales tax exemptions on exported products, and excise tax rebates on materials used in the manufacture of export products. Exporters enjoy exemption from withholding tax for remittances overseas for loan payments and marketing, and from the financial operations tax for deposit receipts on export products. Excise and sales tax exemptions have now been extended to agricultural and semi-manufactured export products as well as to manufactured products. Exporters are also eligible for a rebate on social contribution taxes paid on locally acquired production inputs.

An export credit program, known as PROEX, was established in 1991. PROEX is intended to equalize domestic and international interest rates for export financing. Revisions to the program were announced in 1998. In 1998, $1.4 billion was budgeted for PROEX with $903 million slated for equalization and $500 million for direct financing. However, only $616 million was actually spend last year on equalization, while $210 million went to financing. Historically, PROEX never used more than 30 percent of its allocated budget, but in 1998 utilized over 50 percent of its allocated resources for the first time.

7. Protection of U.S. Intellectual Property

Brazil belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Madrid Agreement, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. In 1999, the U.S. Trade Representative placed Brazil back on the “Special 301” Watch List primarily as a result of serious concerns regarding copyright enforcement. Although Brazil has made progress toward improved protection for intellectual property rights, it must take further significant steps to combat piracy.

In the past three years, Brazil has passed revised copyright, software, patent, and trademark legislation. Brazil’s new Industrial Property Law took effect in May 1997, bringing most respects of Brazil’s patent and trademark regime up to the standards specified in the WTO TRIPs Agreement. However, the new law also includes compulsory licensing and local working provisions that appear to be TRIPs-inconsistent.

Patents: The new Industrial Property Law provides patent protection for chemical and pharmaceutical substances, chemical compounds, and processed food products not patentable under Brazil’s 1971 law, and provides patent protection for genetically altered micro-organisms. The law also extends the term for product patents from 15 to 20 years, and provides “pipeline” protection for pharmaceutical products patented in other countries but not yet placed on the market. The large backlog of pipeline patents are being processed, although slowly. In April 1997, a Plant Variety Law was passed that provides protection to producers of new varieties of seeds.

Trade Secrets: The new Industrial Property Law specifically allows criminal prosecution for revealing trade secrets of patented items, with a penalty of imprisonment for three months to a year or a fine. The regulations as written are narrower than the TRIPs Agreement. However, the government argues that since it incorporated Article 39 of the Agreement into law when the Uruguay Round agreements were ratified, in effect it provides a level of protection consistent with the TRIPs Agreement.

Trademarks: The new Industrial Property Law improves Brazil’s trademark laws, providing better protection for internationally known trademarks. Trademark licensing agreements must be registered with the National Institute of Industrial Property to be enforceable. However, failure to register licensing agreements will no longer result in cancellation of trademark registration for non-use.

Copyrights: In February 1998, in an effort to raise Brazil's copyright protection to the level of the TRIPs Agreement, President Cardoso signed a new copyright law that generally conforms to international standards. Enforcement, however, remains a problem.

Semiconductor Chip Layout Design: In April 1996, a bill to protect layout designs of integrated circuits was introduced.

8. Worker Rights

a. The Right of Association: Unions are free to organize in Brazil. Virtually all workers (except for the military, the military police and firemen) have the right to representation. The only significant limitation is unicidade (literally "one per city"), which restricts representation for any professional category to one union in a given geographical area. Both the government and the major labor confederations have argued in favor of removing this restriction, so it may be removed within the next year. Otherwise, unions remain independent of the government and the political parties.

b. The Right to Organize and Bargain Collectively: The Constitution provides for the right to organize, and virtually all enterprises of any size have unions. With government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. For now, however, many issues normally resolved by collective bargaining come under the purview of Brazil's labor courts, which have the power to intervene in wage bargaining and impose settlements.

c. Prohibition of Forced or Compulsory Labor: Although the Constitution prohibits forced labor, credible sources continue to report cases of forced labor in Brazil. The Catholic Church's Pastoral Land Commission (CPT) has documented cases of forced labor in some states, although the CPT reported that the total number of incidents has declined per year through 1998. Forced labor continues on farms producing charcoal for use in the iron and steel industries, and on sugar plantations. The federal government has created a task force, comprising five different ministries, to combat forced labor, and the Ministry of Labor has augmented the task force with mobile inspection teams. These have efforts have improved the situation considerably, though all concerned concede that forced labor continues to be a problem.

d. Minimum Age for Employment of Children: The Brazilian Constitution prohibits work by children under the age of 14. Despite this prohibition, the Ministry of Labor estimates that nearly three million children in the age category 10 to 14 years work. Sectors that have child labor include charcoal production, sugar cultivation, citrus fruit plantations, hemp growing, and mining and logging, among others. A coalition of government agencies and NGOs have made effective efforts to limit child labor, notably through the implementation of "scholarships" for families who keep their children in school. The problem, however, persists.

e. Acceptable Conditions of Work: Brazil has a minimum wage of approximately 75 dollars (136 reais) a month. Many workers, particularly those outside the regulated economy and in the northeastern part of Brazil, reportedly earn less than the minimum wage. The 1988

Constitution limits the workweek to 44 hours and specifies a weekly rest period of 24 consecutive hours, preferably on Sundays. The Constitution expanded pay and fringe benefits and established new protections for agricultural and domestic workers, though not all provisions are enforced. All workers in the formal sector receive overtime pay for work beyond 44 hours and there are prohibitions against excessive use of overtime. Unsafe working conditions exist throughout Brazil, though Brazilian occupational health and safety standards are consistent with international norms. The Ministry of Labor, responsible for monitoring working conditions, has insufficient resources for adequate inspection and enforcement of these standards.

f. Rights in Sectors with U.S. Investment: U.S. multinationals have invested in virtually all the productive sectors in Brazil. Nearly all of the Fortune 500 companies are represented in Brazil. In U.S.-linked enterprises, conditions usually do not differ significantly from the best Brazilian companies; at most U.S. multinationals, conditions are considerably better than the average.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,825
Total Manufacturing		22,292
Food & Kindred Products	2,472	
Chemicals & Allied Products	5,524	
Primary & Fabricated Metals	1,324	
Industrial Machinery and Equipment	1,463	
Electric & Electronic Equipment	2,097	
Transportation Equipment	3,390	
Other Manufacturing	6,022	
Wholesale Trade		508
Banking		1,667
Finance/Insurance/Real Estate		4,728
Services		1,664
Other Industries		5,118
TOTAL ALL INDUSTRIES		37,802

Source: U.S. Department of Commerce, Bureau of Economic Analysis.